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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

October, 1984

The Conference Board Survey of Financial Indicators

October, 1984

Introductory Note: This is the seventeenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

The third quarter of 1984 was marked by a surprising slowdown in the growth of final demand, a continuing low rate of inflation, and a strengthening of the U.S. dollar. Speculation continued as to whether or not the U.S. economy would make a smooth transition to a more sustainable growth path in 1985. This speculation was heightened by the unexpectedly large accumulation of inventories in the third quarter.

The 41 senior financial executives who participated in the seventeenth semiannual survey of Financial Indicators and Corporate Financing Plans do not see a recession in 1985; most of them look for slower, but continuing, growth in economic activity into 1986. According to the members of the panel:

- The U.S. economy will experience real growth of 3.5 percent in 1985 and 2.7 percent the following year, which will mark the fourth year of expansion in the current business cycle.
- The rate of inflation will rise moderately to 4.8 percent in 1985 and 5.3 percent in 1986, rates that are well below the consensus forecasts made earlier this year.
- Companies are planning to rely more heavily than usual on external financing and, particularly, on short-term funds such as commercial paper.
- Most major currencies will strengthen against the U.S. dollar over the coming six-month period.

A Third Year of Recovery

According to panel members, the growth of nominal GNP should average around 8 percent annually during the next two years. Most executives look for the current expansion to continue through 1986. None sees real economic growth below 2 percent in 1985; but eleven executives look for real growth of less than 2 percent in 1986 and, of these, two forecast a recession in that year.

Inflation is not expected to be a serious problem throughout the forecast period, and the panel's expectations of inflation have, once again, been revised downwards. In the April, 1984, survey, the same group thought inflation would average 5.6 percent in 1985; they now see it nearly one percent lower. Moreover, only two executives see inflation averaging as high as 7 percent in 1986; the highest estimate for 1985 is also 7 percent, expected by one executive.

Interest rates are expected to change very little in 1985 and the group sees a "flat" yield curve with the prime rate and the Aaa rate averaging 13.1 percent. Eleven executives, however, look for the Aaa rate to average 14 percent or more, with the highest estimate at 15.3 percent. Twelve executives see a prime rate of 14 percent or more, but none sees it exceeding 15.5 percent. Both short-term and long-term interest rates are expected to decline moderately in 1986, with a sharper drop in short-term rates so that there is a return to a "normal" yield curve once again. Expectations for the Aaa rate average 12.3 percent, while those for the prime rate fall to 11.9 percent. The decline is due, presumably, to the slowdown in real economic growth while inflation remains under control.

The panel members' confidence in the economy is reflected in a gently rising stock market. Estimates of the Dow-Jones average rise from 1236 in 1985 to 1273 in 1986. Not a single executive looks for the Dow-Jones to average less than 1000 through 1986.

A New Financing Pattern

The thesis has been advanced that important changes in the nation's tax laws have resulted in a structural shift in corporate earnings, which will permit higher capital expenditures.

It is, however, surprising that more companies in this survey plan to increase their reliance on external financing than plan to increase their relative use of internally generated funds. Over the twelve-month period from September 1, 1984, through August 31, 1985, eleven executives see an increased use of external funds, while nine see an increase in internally generated funds. Internal funds of the companies in this survey

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have averaged roughly 82 percent of total funds since September of 1983. This average is roughly in line with their experience during each year of the period 1975 to 1979, an experience that was interrupted in the 1980-1982 period when the percentage of internal funds was substantially lower.

The April, 1984, survey hinted at a shift toward increased use of short-term bank loans and, indeed, the shift occurred as bank loans rose to 11 percent of external funds. The present survey points to a movement toward greater reliance on short-term external funds, especially corporate use of commercial paper. Nine executives plan to increase their companies' reliance on commercial paper, and eight of these see their use of commercial paper rising by 10 percentage points or more relative to other external funds.

A Weaker Dollar Ahead?

The majority of executives whose companies engage in international operations see the British pound, the German mark, and the Japanese yen strengthening against the U.S. dollar by March 31, 1985. Also, more executives see *each* of the major currencies strengthening rather than weakening against the U.S. dollar during each of the forecast periods.

Finally, more executives see a rise in the U.S. dollar price of gold by the end of 1984 and the first quarter of 1985. The rise, however, is expected to be moderate, possibly reflecting the panel's reassessment of inflation and growth conditions in the United States and other major countries.

Vincent G. Massaro

Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Stein at (212) 759-0900.

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average Dec. '84 (4th Q GNP)	Outlook: Average Mar. '85 (1st Q GNP)	Outlook: Average 1985	Outlook: Average 1986
New Aaa industrial rate (%)	12.8	13.0	13.1	13.1	12.3
Prime rate (%)	13.0	13.1	13.2	13.1	11.9
Dow-Jones Average (Index)	1,113.0	1,206.0	1,231.0	1,236.0	1,273.0
Real GNP (%)	7.5	4.3	3.5	3.5	2.7
GNP deflator (%)	3.2	4.0	4.5	4.8	5.3

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds*	82	17	3	6	4	7
External Funds	18	17	4	7	3	6
	100%					
(b) Composition of *External Funds*						
Net new bond issues	24.5	17	0	2	1	6
Private placements	10.8	21	1	3	0	1
Net new equity	19.5	19	1	2	2	2
Bank term loans	16.4	20	0	2	1	3
Bank short-term loans	11.2	20	0	3	1	2
Commercial paper	16.2	16	1	8	0	1
Other	1.4	23	1	1	1	0
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1984:

	Latest Available	Expected Change: By December 31, 1984 — Less than 1% change	Appreciate 1%-5%	Appreciate ◄5%	Depreciate 1%-5%	Depreciate ◄5%	By March 31, 1985 — Less than 1% change	Appreciate 1%-5%	Appreciate ◄5%	Depreciate 1%-5%	Depreciate ◄5%
Canadian dollar	$ .7714	20	7	0	5	0	14	15	0	3	0
British pound	1.31	10	11	2	8	1	8	14	5	5	0
German mark	.3466	9	14	5	4	0	5	17	9	0	1
Japanese yen	.0041	8	16	4	3	1	4	18	9	1	0
Gold	$348.25	9	9	3	3	2	5	10	7	4	0

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Financial Indicators and Corporate Financing Plans:

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April, 1985

The Conference Board

The Conference Board Survey of Financial Indicators

April, 1985

Introductory Note: This is the eighteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

In sharp contrast to the views of a growing number of economists, the 40 senior financial executives who participated in The Conference Board's eighteenth semiannual survey of Financial Indicators and Corporate Financing Plans do not look for a recession in either 1985 or 1986. According to the executives on the panel:

- Real growth in the U.S. economy will average 3.5 percent in 1985 and 2.7 percent in 1986.
- The average rate of inflation over the coming five-year period is expected to be only 4.8 percent, substantially lower than the estimate of the panel one year earlier.
- Both short-term and long-term interest rates are expected to remain at levels that differ little from the average rates prevailing in the first quarter of 1985.
- Companies plan to rely more heavily on internally generated funds in the coming 12-month period, compared to the relatively heavier reliance on external funds since October, 1984.
- Panel members are divided on their outlook for the value of the U.S. dollar, which has recently been unusually volatile.

Two More Years of Recovery

The participating financial executives see real economic growth continuing through 1986 at a moderately declining rate. No one looks for economic growth of less than 2 percent in 1985. Only four executives see real growth below 2 percent in 1986, and none of them clearly looks for a recession. In the October, 1984 Survey, 11 executives saw the economy growing at rates below 2 percent, and two executives looked for a recession. Although the average rates of real growth in the economy show little change from the October, 1984 survey, there has, once again, been a substantial revision in the panel's outlook for inflation. The GNP deflator is expected to rise by only 3.5 percent in 1985 and by 4 percent in 1986. These rates are 1.3 percentage points lower than the rates of growth that were anticipated in the last survey (4.8 percent and 5.3 percent respectively). The panel's outlook for inflation should be seen in the context of its international outlook, since the rate of domestic inflation is influenced by the value of the U.S. dollar. The panel is not looking for a substantial appreciation of most major currencies against the U.S. dollar from their March 1st exchange rates over the coming 3 to 6 month periods (see below). A sizable appreciation of other currencies against the dollar, such as occurred in March, would, in itself, result in higher rates of inflation than those anticipated by the panel.

Both short-term and long-term rates of interest are expected to remain virtually the same, on average, throughout the forecast period. Normally, interest rates tend to rise in the later stages of the business cycle. The Aaa rate is expected to average 12 percent in 1985 and 12.1 per cent in 1986, while the prime rate rises from an average of 10.7 percent this year to 11.2 percent in 1986. Only one executive sees an inverted yield curve in any of the forecast periods, with the prime rate exceeding the Aaa rate in 1986. Four executives see a flat yield curve in 1986, with the average prime rate equal to the average Aaa rate. Only two executives see the Aaa rate averaging as high as 14 percent (in 1986); none sees it above 14.6 percent. Only three executives see the prime rate averaging 13 percent or more in 1986, and, of these, one sees it as high as 15 percent. The lowest estimate for the Aaa rate is 9.7 percent, and the lowest estimate for the prime rate is 9 percent, both in 1986. In line with their expectations of stable interest rates, the executives look for relatively little change in stock prices with the Dow-Jones index averaging 1282 this year and 1283 in 1986.

Reassessing The Five-Year Inflation Outlook

The average annual rate of inflation for the coming five-year period has been substantially lowered by the

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The Panel's Five-Year Inflation Outlook

Number of Panel Members

	Less than 4 percent	4 percent but less than 5 percent	5 percent but less than 6 percent	6 percent but less than 7 percent	7 percent and above	Range	Average
April 1983	1	5	15	6	4	2.5-8.2	5.6
April 1984	1	2	9	19	4	3.5-7.1	5.9
April 1985	4	15	14	4	0	2.8-6.5	4.8

panel, from 5.9 percent last April to 4.8 percent. Given the panel's estimates for 1985 and 1986, this rate implies that inflation will average 5.5 percent in the years 1987 to 1989. The rate of 4.8 percent is well below the actual rates of inflation experienced during the three latest five-year periods: the average rate of inflation was 6.5 percent annually during 1980 to 1984; it averaged 7.3 percent during the years 1975 to 1979 and 5.8 percent during 1970 to 1974. Also, the majority of panel members look for inflation to average less than 5 percent; last April, only three executives saw inflation below 5 percent. No executive looks for inflation to exceed 6.5 percent in the coming 5-year period.

A More Traditional Financing Pattern

In the October, 1984 survey, the companies that participate in the survey were planning to increase their reliance on external financing, and this is precisely what happened. Since 1976, internal funds of the companies in this survey have averaged approximately 82 percent of total funds each year, with the exception of the 1980 to 1982 period. During the latest twelve-month period, internal funds fell to 77 percent of total corporate funds.

More companies in the survey, however, plan to increase their relative use of internally generated funds once again. Over the twelve-month period from March 1, 1985 through February 28, 1986, fourteen executives see an increased use of internal funds. The external financing pattern of the companies in the survey was marked by a sharp increase in the use of commercial paper in the past twelve-month period, a rise that panel members predicted in the last survey. The executives now plan to continue to rely heavily on commercial paper and net new bond issues for the bulk of their external funds.

A Divided Outlook for the U.S. Dollar

During the past two years, the financial executives whose companies engage in international operations have expected that other major currencies would strengthen against the U.S. dollar. The majority now looks for the Canadian dollar, the British pound and the German mark to depreciate against the U.S. dollar by June 30. Given the decline in the value of the U.S. dollar from March 1, the majority view implies a substantial appreciation of the dollar during the coming three-month period. The number of executives looking for an increase in the value of each of these currencies by September 30 does not differ substantially from the number who see each currency depreciating. The majority, however, see the Japanese yen appreciating by September 30th. Finally, in line with their outlook for inflation, panel members do not see a rise in the U.S. dollar price of gold.

Vincent G. Massaro

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average June '85 (2nd Q GNP)	Outlook: Average Sept. '85 (3rd Q GNP)	Outlook: Average 1985	Outlook: Average 1986
New Aaa industrial rate (%)	11.8	11.9	12.1	12.0	12.1
Prime rate (%)	10.5	10.6	10.9	10.8	11.2
Dow-Jones Average (Index)	1,236.0	1,291.0	1,289.0	1,282.0	1,283.0
Real GNP (%)	3.9	3.5	3.2	3.5	2.7
GNP deflator (%)	2.4	3.5	3.7	3.5	4.0

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	77	17	3	11	3	3
External Funds	23	17	3	3	3	11
	100%					
(b) Composition of *External Funds*						
Net new bond issues	32.9	12	1	8	0	9
Private placements	5.5	29	0	0	0	1
Net new equity	6.9	22	2	3	0	3
Bank term loans	12.8	21	2	3	1	3
Bank short-term loans	13.7	23	1	1	2	3
Commercial paper	27.2	18	3	3	0	6
Other	1.0	28	0	1	0	1
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1985:

	Latest Available	Expected Change: By June 30, 1985 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By Sept. 30, 1985 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .7246	8	7	0	12	7	5	10	3	10	5
British pound	1.08	1	8	1	14	9	3	10	4	11	5
German mark	.2996	2	9	2	13	8	2	12	5	9	5
Japanese yen	.0039	5	15	1	11	2	4	16	4	8	1
Gold	$287.75	7	5	2	12	5	4	10	3	9	4

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